

Commentary

Factors That Influence the Value of Used IT Equipment

Most enterprises understand that the value of used IT equipment is directly related to what a similar, brand new equipment would cost. However, there are factors that further erode the value.

To obtain the best possible price for used IT equipment, enterprises must not only understand the product and technology life cycle, but should equally be aware of any specific conditions relating to the secondary market for the equipment in question. Ideally, detailed questions covering these issues should be raised during the initial acquisition and procurement stage. The key factors should then be monitored at regular intervals to avoid any surprises when the equipment is retired and resold.

Factors From Independent Brokers That Affect Used Value

Enterprises recognize that an independent broker's offering price for a used system or server will be well below the list price of a new one with comparable performance features. Enterprises that only occasionally sell their old IT equipment to independent brokers are unaware of the many reasons for these low bids. Naturally, a broker has to make a profit and cover the risk taken while the equipment sits in the warehouse waiting for a buyer. The cost a broker incurs to refurbish used IT equipment and prepare it for resale is usually borne by the seller and reflected in the price offered by the broker. Used IT equipment may also be traded among several brokers before finding a new home in an enterprise. Because the sales price of a secondhand product is capped by the price of a new product, brokers can only create the margins that facilitate these broker-to-broker transactions by lowering the prices they will pay for the used equipment.

Factors From Manufacturers That Affect Used Value

Manufacturers also influence the decline in used IT equipment values. Improvements in design and components have not only resulted in increased performance and lower prices, they have enabled vendors to offer longer warranty periods on new products at a lower rate. This affects the broker's offer for used equipment because a broker will typically subtract the cost of the warranty for the used equipment before arriving at a bid value. Manufacturers can further reduce the value of equipment on the independent used market by charging significant amounts to certify that the equipment meets the standards required for vendor maintenance. This may not be important to enterprises, but brokers will set their prices accordingly. Sometimes, to entice enterprises to purchase their latest offerings, manufacturers will increase maintenance and software charges on older products.

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Reason for Sale Also Affects Used Value

There are many reasons why used IT equipment is sold on the secondary market. The reason for the sale and the manner of sale will dramatically affect the price. For example, recently, much of the used IT equipment that has reached the secondary market has been a result of corporate downsizing, corporate liquidations and outright bankruptcies. Frequently, equipment sold under these circumstances is sold “as is, where is” and comes without any warranty. Because of the urgency for sale proceeds, and the lack of any warranty, the sale price is often only a few cents on the dollar (or euro). Large quantities available under such conditions can erode secondary market values overall.

Bottom Line: There are no hard and fast rules for how the price of used IT equipment is calculated. Brokers will rarely identify and quantify the factors they use to establish a price. Enterprises should ask detailed questions during sales negotiations to secure the best possible price. These questions should explore how issues like the cost of refurbishment, recertification, warranty and transport are addressed. Because manufacturers change design points every few years, equipment that is more than three years old is not likely to command more than 5 percent to 15 percent of its original list price.